

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: August 21, 2009

RE: Update on City's Financial Status

Your Honorable Body, the purpose of this memorandum is to share with you information I received last week from Chief Executive Assistant Charles Beckham and Group Executive-Finance Director Norman White on the latest status of the City of Detroit's finances. You should note, however, that much of this information has been reported in the local newspapers.

In fact, there is an article in Wednesday's Detroit News entitled "Bing: 'Nobody's protected' from city layoffs", which is Attachment I. Attachment II is an article in Wednesday's Free Press entitled "Detroit union leaders balk at Bing's job cuts". I will make references to these articles through out this report.

City's Dire Finances

The Administration identified four areas that require immediate attention: Accumulated Debt, Operating Deficit, Cash Crisis and Restructuring Government.

Accumulated Debt and Operating Deficit

A number for the accumulated deficit was not provided. Council will recall, however, that the 2009-10 budget has an accumulated or prior year deficit account as of June 30, 2009 totaling \$280 million. The Fiscal Analysis Division feels this figure is reasonable, since we projected a \$250 million accumulated deficit during the budget process in April.

In regards to the current year, the Administration projects an operating deficit ranging from \$60 to \$125 million. The Fiscal Analysis Division has not seen the details supporting this estimate.

Using the budgeted accumulated deficit figure and the current operating deficit range, the City's current overall deficit ranges from \$340 to \$405 million.

Council should note that the Fiscal Analysis Division projects a possible \$268 million operating revenue gap in the General Fund. "Operating revenue" is the "day to day" revenue that comes in, such as income taxes, property taxes, utility users taxes, casino taxes, solid waste fees, EMS fees, etc., which is critical to review when analyzing cash flow. This estimate is based on the following:

| | <u>(In Millions)</u> |
|--|------------------------|
| 2009-10 Budgeted General Fund Revenues, including Solid Waste Fund Revenue | \$1,664.90 |
| Less: Securitization Revenue (1) | <u>(275.00)</u> |
| 2009-10 Budgeted General Fund Operating Revenues | \$1,389.90 |
| Less: Projected 2008-09 General Fund Operating Revenue Collections (See <u>Attachment III</u>) (2) | <u>(1,121.50)</u> |
| Projected 2009-10 General Fund Operating Revenue Gap or Shortfall | <u>\$268.40</u> |

(1) Securitization revenue is subtracted because this revenue represents one-time revenue from the leasing of revenue streams from City assets, such as the Detroit side of the tunnel, parking and public lighting. Hence, securitization revenue is not considered "an operating revenue" source.

(2) The Fiscal Analysis Division does not anticipate the 2009-10 General Fund operating revenue collections coming in any better. In fact, there could be more revenue reductions in income taxes, casino taxes, property taxes, and state revenue sharing based on trends and local and state economic conditions.

It could still be true that the current year's operating deficit hovers around \$125 million, as the Administration estimates, when any projected net appropriation surplus is included. At this point, the Fiscal Analysis Division does not have an estimate of any General Fund net appropriation surplus for the current year, but we are currently in the process of running financial reports to come up with an estimate. We will share our estimate with your Honorable Body as soon as possible.

Even though securitization revenue was backed out above to analyze General Fund operating revenue, obviously, and unfortunately, any unrealized securitization revenue just further exacerbates the City's financial strain. Any securitization revenue would bring in cash and help address the City's accumulated deficit.

Council should note that the Administration is considering a tunnel deal, but does not anticipate generating even the \$75 million expected under the Kilpatrick administration given current market conditions.

In addition, the Administration is under current negotiations to extract some funds from an escrow account set up under a Greater Detroit Resource Recovery Authority contract to raise cash for the General Fund.

The Administration is also considering hiring a contractor to go after receivables (such as in Fire and DDOT), but does not anticipate a huge influx of cash from this process. I suspect they feel this way because many of the receivables on the books are truly uncollectible. It would be great as a by-product of scrubbing receivables a record of receivables that is purged of accounts that are uncollectible and written off by City Council.

The Administration mentioned that "everything is on the table" including reducing uniform positions, if necessary, and cutting overtime.

Cash Crisis

The Administration hopes to avoid running out of cash by October 1st by instituting lay offs and wage concessions, possibly issuing grant notes, like Tax Anticipation Notes, and pushing off pension payments. The Administration did indicate that what has helped the City's cash flow up to this point is the infusion of cash from reimbursements from Wayne County for the City's delinquent property taxes. But the City could still run out of cash by October if drastic measures are not taken. Meanwhile, the Fiscal Analysis Division has yet to see the City's current cash flow in confidence.

Layoffs

The Administration feels that the number of layoffs needed is about 10% of the City's current work force, or about 1,300. However, I need to point out that since uniform positions represent 5,000 employees and Water & Sewerage about 3,000 employees, 1,300 layoffs is about 26% of the remaining 5,000 civilian employees.

The Administration indicated Mayor Bing has laid off 366 employees since he has been in office. They also indicated that Mayor Bing looks to issue layoff notices by Friday, August 14th for another round of 500 layoffs. The Detroit News article referenced above stated that nearly 1,000 pink slips already gone out from the Mayor and will take effect by September 26th. The Free Press article stated that union leaders in DDOT received notices that 249 jobs will be eliminated by October 2nd, of which 110 represent mechanics and 30 bus drivers.

In addition, the Administration feels DWSD may also have to layoff employees because the water and sewerage revenues have not met estimates. As a result, the revenues are not matching costs.

The Administration also indicated that Whitebook amendments may be needed to eliminate job classifications. But this is something to be done for the 2010-2011 fiscal year.

In regards to the layoff process, the Administration mentioned that this is a very complicated process because they have to assess several factors regarding each employee, particularly, when it comes to employee "bumping rights" under labor contracts. In addition, it was noted that Human Resources is low on manpower and much of the layoff paperwork is processed manually.

Wage Concessions

The Administration indicated that 26 furlough days would save around \$12 million from the civilian employee, and a four-day work week would generate around \$25 million in savings.

The Detroit News article stated that starting September 1, all the appointees and other non-union workers will be hit by a 10 percent wage cut. For clarity purposes, the wage reduction ordinance Council introduced before recess enables the Mayor to institute a 10% wage reduction for executive non-union employees via Executive Order. For the legislative side, the ordinance enables your Honorable Body to pass a resolution to implement a 10% wage reduction for legislative employees. The 10% wage reduction is implemented by the usage of furlough days.

The Administration also indicated that even with union concessions, layoffs are likely necessary.

Grant Notes

This is in the very preliminary stage, but the Administration is considering issuing Grant Anticipation Notes, much like Tax Anticipation Notes, or TANs, to raise cash to help smooth out any cash deficiency. The GAN would be secured by the grant(s) for which they were issued. In essence, the City would issue the notes and payoff the investor with interest when the actual grant dollars come in. This could work since the City receives sizable federal and state grants. The flip side, however, is that the interest payment would have to be made from the General Fund. The City would also have to ensure that all grant dollars are spent on intended purposes. I do not believe the City has ever issued a GAN; so this would be a new product in the market place for the City, but other municipalities do GANs.

Pushing Off Pension Payments

Recently the City received two Writ of Mandamuses from the Wayne County Circuit Court ordering the City to pay the 2008-09 pension contribution to the General Retirement System and the Police & Fire Retirement System due on June 30, 2009.

To help address the cash flow crisis, the Administration is negotiating a payment plan with the pension systems to make monthly pension payments over 6-9 months at 7% interest. They hope to put payments off until late January 2010. The 7% rate is reasonable since the assumed rate of interest on pension investment returns is 7.8% or 7.9%.

Restructuring Government

As it relates to restructuring government, the Administration did not have any details on proposed service plan reductions, but indicated a plan would be produced by Friday, August 14th. I also understand that a service reduction plan may include consolidations or eliminations of City functions. However, the Fiscal Analysis Division has not yet seen such a plan. The Administration did state, however, that any savings realized from consolidations or eliminations of City functions would probably start in year 2010-11.

Council should be reminded that according to the Stecher vs. City Council court case, the Mayor must submit a budget reduction plan to address a known deficit to the Council before implementation, but that once it is submitted to Council, the Administration implements it without Council approval. I appreciate the extreme pressure the Mayor is under grappling with the City's severe budget crisis. In addition, the Mayor has said he looks to receive by the end of August recommendations from his Crisis Turnaround Team to deal with the budget crisis. So, it appears a budget reduction plan may not be available until sometime in September. Nonetheless, it is extremely critical for your Honorable Body to receive a budget reduction plan from Mayor Bing as quickly as possible next month that addresses the City's deficit.

Request of Information from the Administration

In order for your Honorable Body to perform your fiduciary responsibilities and due diligence concerning the City's financial crisis, I respectfully request that the Administration give City Council the following information as soon as possible:

1. Please provide the Administration's latest estimate on the City's accumulated deficit as of June 30, 2009.
2. Please provide details on the current year's projected \$60 to \$125 million operating deficit.

3. Please provide a timeline on a potential tunnel deal. In addition, please provide a position paper on pursuing the securitization of revenue streams from the parking and public lighting generation systems.
4. Please provide a timeline on the possibility of extracting funds from an escrow account associated with GDRRA.
5. Please provide a copy of any Request for Proposal to be sent to solicit a potential contractor for receivable collections.
6. Please share in confidence a copy of the City's most recent cash flow statement with Council's Fiscal Analysis Division to discuss the City's cash position with the Finance Director.
7. Please provide a list of the 366 layoffs and a list of the additional 500 (or 1,000, as indicated in the Detroit News article) layoffs. In addition, please provide any analysis on the impact these layoffs will have on City services.
8. Please provide a schedule of when the furlough days would be in effect. In addition, please provide how the Administration will address garbage pick up on the furlough days, assuming the entire City government is shut down on those days with the exception of essential services such as police and fire services.
9. Please a copy of Mayor Bing's Executive Order instituting a 10% wage cut for the executive non-union employees.
10. Please provide a service reduction plan with expected savings.
11. Please provide any budget amendments that support the layoff and service reductions so that Directors have less to spend. In addition, budget amendments are also required when revenue collections are below estimates to prevent year-end deficits.
12. Please provide any ideas on raising new revenues to help address the City's financial crisis.
13. Please provide a copy of the report from the Mayor's Crisis Turnaround Team when it is available.
14. Please provide a budget deficit elimination plan when it is available.

Attachments

cc: Council Divisions
Auditor General's Office
Ombudsperson's Office
Mayor Dave Bing
Charles Beckham, Chief Executive Assistant
Saul Green, Deputy Mayor
Norman White, Group Executive-Finance Director
Pamela Scales, Budget Director
Kamau Marable, Mayor's Office

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Attachment I[Click to Print](#)[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Wednesday, August 19, 2009

Bing: 'Nobody's protected' from city layoffs

Leonard N. Fleming and David Josar / The Detroit News

Detroit -- Mayor Dave Bing today delivered a tough, sobering message: "nobody's protected" from layoffs given the city's precarious finances including his appointees as well as police and firefighters.

The mayor wouldn't say when these cuts will occur but told reporters that nearly 1,000 pink slips to other city employees have already gone out and will take effect by Sept. 26.

"Public safety is something that's critical for the citizens here in the city of Detroit," he said. "They will be the last ones I'll look at for cuts but everybody's on the table."

On his 100th day in office, Bing also warned appointees in a morning speech that "tough days are ahead," but reiterated his belief that his team has the know-how and tenacity to get the city moving in the right direction.

"These are tough times and there are tough jobs and it is not for the weak," Bing said before holding a ceremonial swearing-in for his roughly 120 appointees, most of whom work in the mayor's office or oversee the city's departments.

"We can take this city from where it is to where it has to go."

Earlier in the day, Bing addressed members of the city's General Retirement System board at its weekly meeting. He told them he's working hard to keep the city afloat and promised the administration would fund money owed to the pension system but needs a payment plan to do so. The pensions have sued the city over the debt.

Bing -- who has been waging negotiations with unions and asking for major concessions to stem a \$300 million deficit -- did not specifically say there would be layoffs for jobs that, as a candidate, Bing and other mayoral contenders promised not to touch.

"We have not sat down with the uniformed officers in the city of Detroit, but that's coming," Bing said, adding that he can't promise any employee will be "protected" because that would be irresponsible.

"And I don't want anybody to think that just because you are in public safety or you're in an

enterprise division in one of the city's departments that you're not going to be impacted. I've got to look across the board, quite frankly, and get our costs in line and try to be as fair as I can be."

Before Bing addressed his appointees in the 13th floor auditorium of the Coleman A. Young Municipal Center, his top executive, Charlie Beckham, outlined the city's precarious finances.

For the first-time, he said the city is looking at "give backs" from vendors -- where they would agree to reduce costs -- as a way to balance this year's city budget and indicated there have been discussions with the Greater Detroit Resource Recovery Authority to tap into an escrow fund to help with the financial books.

"This is as tough as I've ever seen it," Beckham said, who has worked for six Detroit mayors. "You've got to start early and work early."

Making their jobs even more challenging, Beckham said, there will be no vacations until progress has been made on solving Detroit's fiscal crisis.

Already starting Sept. 1, all the appointees and other non-union workers will be hit by a 10 percent wage cut. Bing said he was hopeful to have union negotiations wrap up by the end of August. Still, the mayor said the city has settled with some unions but wouldn't name them. Union protests were scheduled for later today outside City Hall.

Bing, who gave his annual \$176,000 salary to the police department, told pension board members who have been criticized for excesses that he's requiring all appointees to take a 10 percent pay cut by Sept. 1.

Bing also said that other financial options such as taking back city cars and stipends for those who don't have a vehicle are under consideration.

The new mayor, who is running for a four-year term in November, has warned that if the city doesn't act soon, Detroit is in danger of going broke by Oct. 1 and could be vulnerable to receivership.

"Bottom line is we don't have the money to run the city as it's been run," he said.

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Find this article at:

<http://www.detroitnews.com/article/20090819/METRO01/908190398/Bing---Nobody-s-protected--from-city-layoffs>



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☐ Check the box to include the list of links referenced in the article.

Attachment II

August 19, 2009

Detroit union leaders balk at Bing's job cuts

By SUZETTE HACKNEY
FREE PRESS STAFF WRITER

A day after union leaders in the Department of Transportation received notices that 249 jobs will be eliminated by Oct. 2, Detroit Mayor Dave Bing today told his staff – and Detroit residents -- that no decisions about bus cuts have been made.

The transportation department is the hardest hit in the city's latest round of layoffs, but 10 other departments, including lighting, finance and health departments, also will be affected. A total of 358 positions are on the chopping block.

"The mayor says it's not set in stone that bus service will be cut, but the plan is in place, and that's evident by the number of layoffs in DDOT," said Catherine Phillips, chief negotiator for the American Federation of State, County and Municipal Employee locals that represent city employees. "He's saying one thing and obviously doing another."

Union leaders found out about the latest round of layoffs after negotiations Tuesday. Bing has said the financial state of the city is bleak, and workers can expect to receive at least 1,000 pink slips in coming months, even if the unions agree to take a pay reduction of at least 10%. The mayor has already laid off about 300 people since taking office in May.

Within transportation's 239 mechanics, 110 are scheduled to be laid off. Those mechanics repair buses and other DDOT vehicles. The city intends to layoff 30 drivers.

Earlier today at an appointee swearing-in ceremony, Bing said no final decisions have been made about trimming bus service. He has proposed ending service at 6 p.m. on Saturday and shutting down all routes on Sundays. Four public hearings are scheduled for next week.

"If it's not the right thing to do, we won't do it," Bing said of the proposed bus cuts. "I don't want to hurt the people of the city of Detroit by making a decision without having their input."

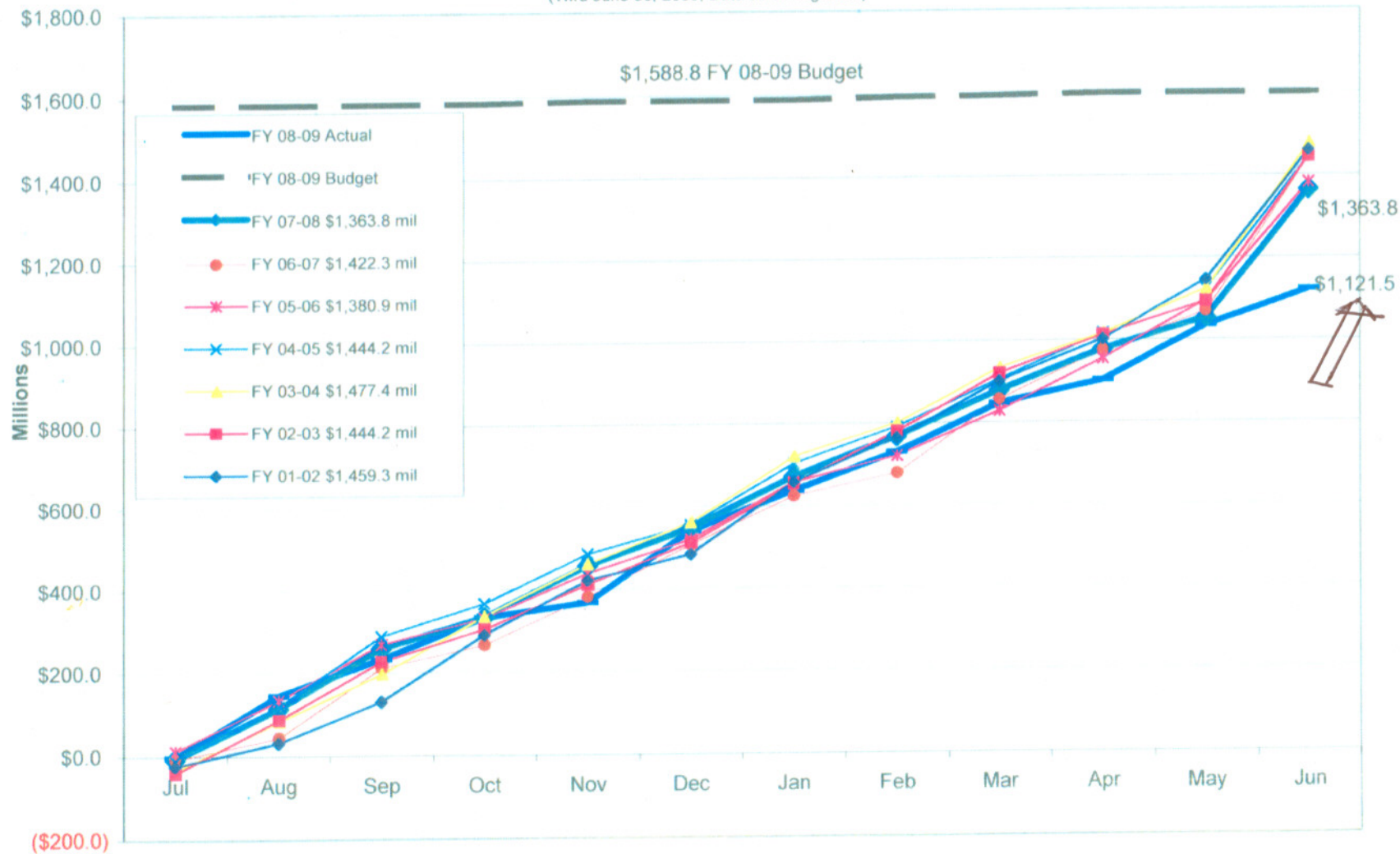
The letters that went to union leaders stated that the anticipated layoffs "is not intended to be exhaustive," and that additional titles and workers may be affected as the city battles ongoing budget constraints.

Thomas Johnson II, president of AFSCME Local 2920, which represents workers from the lighting, water and human resources departments, said some positions being eliminated for his members include service information clerks, meter readers, drafting technicians and maintenance workers.

"When you kill the services it has a trickle down effect," Johnson said. "The people of Detroit are the ones who will suffer and even more will start to leave the city. There goes more of your tax base."

Unions are planning to rally at City Hall at 4:30 to protest the cuts.

All General Fund Revenue
Includes Solid Waste Management Fund (SWMF) for Comparative Analysis
 (Thru June 30, 2009, Data as of Aug 2009)



Attachment III